Department of Telecommunications and Energy
Third Set of Information Requests

THE BERKSHIRE GAS COMPANY
D.T.E. 04-52

Witness: **John J. Kruszyna**
Date Filed: **August 2, 2004**

Question
DTE 3-1: Please provide the dollar amount of the 2001 and 2002 plant additions eligible for bonus depreciation under Section 168(k) of the Internal Revenue Code ("IRC"). In addition, please submit copies of Form 4562, Depreciation and Amortization, filed with the Company's 2001 and 2002 Federal Income Tax returns.

Response: The total dollar amount of the 2001 and 2002 plant additions eligible for bonus depreciation under Section 168(k) of the Internal Revenue Code ("IRC") was $1,431,179 in 2001 and $3,871,949 in 2002.

Attached schedule DTE 3-1 provides copies of Form 4562, Depreciation and Amortization, filed with the Company's 2001 and 2002 Federal Income Tax returns.

Department of Telecommunications and Energy
Third Set of Information Requests

THE BERKSHIRE GAS COMPANY
D.T.E. 04-52

Witness: **John J. Kruszyna**
Date Filed: **August 2, 2004**

Question DTE 3-2: Did the Company file an Application for Automatic Extension of Time to File Corporate Income Tax Return (Form 7004) with respect to the taxable year 2003? If so, please provide the dollar amount of the 2003 plant additions eligible for bonus depreciation used to calculate the Federal income tax liability shown on Form 7004.

Response: Yes, the Company filed an Application for Automatic Extension of Time to File Corporate Income Tax Return (Form 7004). The dollar amount of the 2003 plant additions eligible for bonus depreciation used to calculate the Federal income tax liability shown on Form 7004 was $3,299,559.

Department of Telecommunications and Energy
Third Set of Information Requests

THE BERKSHIRE GAS COMPANY
D.T.E. 04-52

Witness: **John J. Kruszyna**
Date Filed: **August 2, 2004**

Question DTE 3-3: Please provide the Modified Accelerated Cost Recovery System ("MACRS") deprecation rates for 7-year and 20-year utility property prior to the enactment of Section 168(k) of the IRC.

Response: The Modified Accelerated Cost Recovery System ("MACRS") deprecation rates for 7-year and 20-year utility property prior to the enactment of Section 168(k) of the IRC are as follows:

	7 Year Property	**20 Year Property**
Year 1	0.1429	0.0375
Year 2	0.2449	0.07219
Year 3	0.1749	0.06677
Year 4	0.1249	0.06177
Year 5	0.0893	0.05713
Year 6	0.0892	0.05285
Year 7	0.0893	0.04888
Year 8	0.0446	0.04522
Year 9		0.04462
Year 10		0.04461
Year 11		0.04462
Year 12		0.04461
Year 13		0.04462
Year 14		0.04461
Year 15		0.04462
Year 16		0.04461
Year 17		0.04462
Year 18		0.04461
Year 19		0.04462
Year 20		0.04461
Year 21		0.02231

Department of Telecommunications and Energy
Third Set of Information Requests

THE BERKSHIRE GAS COMPANY
D.T.E. 04-52

Witness: **John J. Kruszyna**
Date Filed: **August 2, 2004**

Question
DTE 3-4: Please provide the MACRS depreciation rates for 7-year and 20-year utility property after the enactment of Section 168(k) of the IRC.

Response: Section 168(k) of the IRC allows an additional deduction for first year depreciation of 30% for assets placed in service after September 11, 2001 and before January 1, 2005. A 50% special first year depreciation deduction is allowed for assets placed in service after May 5, 2003 and before January 1, 2005; qualifying property is eligible for either a 30% or 50% bonus depreciation deduction in the first year of service. In both cases, the amount of the bonus depreciation deduction is applied against the remaining basis for purposes of calculating the MACRS deduction. That is, the basis, reduced by the amount of the elected bonus depreciation, is depreciated using the same MACRS tables presented in the response to DTE 3-3.

Department of Telecommunications and Energy
Third Set of Information Requests

THE BERKSHIRE GAS COMPANY
D.T.E. 04-52

Witness: **John J. Kruszyna**
Date Filed: **August 2, 2004**

Question DTE 3-5: Please refer to the Attachment to the Company's response to Information Request DTE 2-1. Please explain the Company's characterization of the benefits of bonus depreciation as "short-term" when the enhanced cash flow (deferred income taxes) resulting there from extends over the tax life of the plant eligible for bonus depreciation.

Response: The Company's characterization of the benefits of bonus depreciation as "short-term" is due to the actual means by which any "benefit" associated with the short-term tax savings generated by the temporary depreciation rate differences can be realized. Cash savings from a timing difference on tax liability was necessarily used to reduce short-term debt levels or reduce future short-term borrowing needs. As a practical and legal matter, any benefit associated with bonus depreciation may not be realized through long-term debt cost savings. First, the Company would not be able to issue long-term debt securities "supported" by bonus depreciation. The Department has clearly stated that its "net plant test," applied when reviewing potential utility debt issuances, is intended "to protect ratepayers from excessive rates associated with overcapitalization and to assure the creditors of a utility that the Company has sufficient tangible assets to cover its liabilities." Boston Gas Company, D.T.E. 03-40, p. 321 (2003). The Department has long held that non-tangible assets should be excluded from rate base in accordance with the well-established regulatory principle "that the original book value of used and useful property is included in rate base, and not its market value as may be determined from time to time." Id. at p. 323, n. 137; See also Boston Edison Company, D.P.U. 84-47, p. 5 (1985). The timing benefit associated with bonus depreciation is, similarly, not a "tangible" asset. In addition, the bonus depreciation election does not affect the Company's compliance with covenants in its existing approved long-term debt instruments. Thus, there is no added bonding capacity within these instruments as a result of such election. These existing restrictions do not make the use of long-term financing a viable means to capture any timing benefit associated with a bonus depreciation election. Bonus depreciation may enhance short-term cash flow over the life of the relevant plant asset but this benefit is not reflected or captured in relevant restrictive covenants in existing debt instruments that act to preclude long-term financing opportunities.

In sum, the Company does not expect that any timing benefit associated with bonus depreciation elections would satisfy the net plant test. The election to apply bonus depreciation creates a positive cash flow in year one and this cash flow reduces short-term debt. Any benefit that extends over the tax life of the plant results from the continued reduction of the Company's short-term borrowing levels. Thus, the Company's long-term weighted cost of capital should not be considered when determining the amount of such timing benefit and the Company properly applied its actual short-term debt rates in its response to Information Request DTE 2-1.

Department of Telecommunications and Energy
Third Set of Information Requests

THE BERKSHIRE GAS COMPANY
D.T.E. 04-52

Witness: **John J. Kruszyna**
Date Filed: **August 2, 2004**

Question
DTE 3-6: Please refer to the Attachment to the Company's response to Information Request DTE 2-1. Please explain the Company restated column 6 in 2004 dollars.

Response: The use of a net present value function provides a current statement of the benefit of the Company's bonus depreciation elections. The use of "nominal" dollars would overstate the value of such benefit today.

Department of Telecommunications and Energy
Third Set of Information Requests

THE BERKSHIRE GAS COMPANY
D.T.E. 04-52

Witness: **John J. Kruszyna**
Date Filed: **August 2, 2004**

Question
DTE 3-7: Please refer to the Company's response to Information Request DTE 2-1. Please explain how a change in the method used to calculate tax depreciation affects the "development of the depreciation expense used in determining a cost of service requirement."

Response: As noted in the response to Information Request DTE 2-1, the Company submits that changes in the manner of calculating tax depreciation are not relevant to the determination of depreciation expense for the cost of service requirement in determining rates or the return component on rate base. The Department has "consistently applied original-cost rate base principles" and, in Berkshire's case, a comprehensive depreciation analysis was relied upon in determining depreciation expense. See The Berkshire Gas Company, D.T.E. 01-56, p. 88 et seq.; see also Boston Gas Company, D.T.E. 03-40, p. 323 (2003). As noted in its response to Information Request DTE 2-1, the Company believes that the specific terms of the Price Cap Mechanism Plan (as compared to rate plans in place for other utilities) did not provide for rate adjustments for costs related to plant additions during the term of the Plan.

Bonus depreciation was only available to the Company by reason of plant additions made after September 11, 2001, well after the close of the test year from D.T.E. 01-56. If the PCM Plan is interpreted to provide for exogenous cost adjustments by reason of plant additions, the Company respectfully submits that all appropriate adjustments for such plant additions should be accorded similar and consistent treatment. That is, if a benefit associated with a plant addition is an appropriate item for an exogenous factor adjustment, consistency suggests that the associated burden should be treated comparably.

A consistent treatment of the added costs and benefits derived by reason of post-test year plant adjustments should consider rate of return, depreciation expense and property tax expense associated with added plant. In 2001 there were plant additions of $1,431,179 eligible for bonus depreciation. Eligible additions totaled $3,871,949 for 2002 and $3,299,599 for 2003. The three-year total of eligible plant additions was $8,602,687. See responses to Information Requests DTE 3-1 and DTE 3-2. Assuming traditional rate treatment for these plant additions, not only would income tax expense be adjusted, but return, depreciation expense and tax expense should also be adjusted, determined as follows:

Department of Telecommunications and Energy
Third Set of Information Requests

THE BERKSHIRE GAS COMPANY
D.T.E. 04-52

Question
DTE 3-7
Cont'd.:

Return on rate base - Plant additions $8,602,687 @ 9.37% weighted cost of capital as follows:

		Cumulative Eligible Plant Additions		Cumulative Return Amount
2001		$1,431,179		$134,101
2002		$5,303,128		$496,903
2003		$8,607,687		$806,540

Depreciation expense - Plant additions $8,602,687 @ 3.47% composite rate as follows:

		Cumulative Eligible Plant Additions		Cumulative Depreciation Expense
2001		$1,431,179		$ 50,703
2002		$5,303,128		$184,018
2003		$8,607,687		$298,687

Property tax expense - Plant additions $8,602,687 @ 1.87% composite rate as follows:

		Cumulative Eligible Plant Additions		Cumulative Property Tax Expense
2001		$1,431,179		$ 26,763
2002		$5,303,128		$ 99,198
2003		$8,607,687		$160,964

In sum, the Company submits that any short-term timing benefit associated with bonus depreciation is not a proper exogenous factor pursuant to Berkshire's Price Cap Mechanism Plan. However, if the Department determines that such benefit derived from a plant addition should be the basis for an adjustment, all other related adjustments should also be addressed in a consistent manner reflecting, at a minimum, the added costs shown in this response.